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## Terms of Reference

# The Investor Roadmap: Administrative Barriers to Small Business Development

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### Background

Complex and costly start-up procedures are an important barrier in the formalization of many small, medium and micro-enterprises (SMMEs) that are primarily owned and run by emerging entrepreneurs. Lacking formal status, these businesses have limited legal protection, limited access to financing, and face much higher obstacles in achieving growth. Studies in many developing countries demonstrate that the proprietors of small businesses undergo greater regulatory difficulties than their larger counterparts. This is because larger firms have better access to senior government officials, are more likely to know their legal rights, are more apt to hire facilitators such as freight forwarders and attorneys familiar with the system's complexities, and have greater ability to make payments of processing fees and other charges.

Because emerging entrepreneurs often face unreasonable delays in starting businesses, they are frequently prevented from proceeding. For example, the implementation rates of many small businesses in Africa have typically been low as a result of red tape that stops businesses before they can get off the ground. Moreover, even when start-up delays are the same for businesses of all sizes, they impose a greater financial burden on small entrepreneurs who typically lack the financial resources to wait out long delays. As a result, emerging entrepreneurs are forced into the "informal" economy, working outside the law, and depriving the formal economy of an important source of productivity and dynamism.

The goal of the Investor Roadmap: Administrative Barriers to Small Business Development ("Small Business Roadmap") is to identify and ameliorate the critical regulatory, administrative, and institutional constraints that inhibit the growth of SMMEs. Once the constraints are identified, a series of interventions will be conducted to reengineer government procedures, simplify regulations and promote generally an investment environment that will encourage and facilitate, rather than hobble, small-scale entrepreneurs. Further technical assistance can be provided during a second phase of activities to build process improvement capacity into existing government agencies. This helps to ensure that reform efforts are ongoing.

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## Methodology

### *The Investor Roadmap*

The Investor Roadmap is an analytical methodology that delineates in a step-by-step fashion the various processes a business must complete to become operational in full compliance with all laws, regulations, procedures, and institutional practices in a given jurisdiction. The Roadmap model combines diagnostic analyses, specific recommendations, consensus-building efforts and technical assistance to facilitate reforms. Investor Roadmaps have been conducted by TSG in various countries and have been very effective in catalyzing reforms to streamline burdensome regulations and procedures that constrain private investment.

The adaptability of the Roadmap methodology has been demonstrated in many countries with varying levels of economic development. The diagnostic methodology involves interviews with the government officials and members of the private sector, and analysis of laws and regulations. The usual Roadmap model categorizes investor interactions with government into several processes, grouped into four general areas, typically as follows:

- (1) Reporting – business registration; sectoral licensing by line ministries; local licensing by municipalities; registering intellectual property; registering and paying taxes; acquiring investment incentives.
- (2) Employing -- investor entry; importing expatriate labor; hiring local employees.
- (3) Locating -- acquiring land; site development; utility hook-ups; environmental compliance.
- (4) Operating – product standards certification; import and export licensing; customs clearance; duty drawback; bond release; currency conversion; repatriating earnings.

These processes are subjected to a step-by-step analysis, identifying regulatory hurdles and administrative bottlenecks that impede investment. The analysis generally addresses issues of concern to both local and foreign investors. The diagnostic report also contains recommendations of specific reforms for each constraint in order to improve regulations and streamline procedures.

The diagnostic report is typically used as a tool to educate government officials about the investment constraints. Process

reform workshops, attended by staff of the relevant national agencies and facilitated by process reengineering consultants, encourage government staff to re-examine current practices and to identify solutions. The workshops produce “Action Plans” targeting certain priority processes and agencies for urgent reform. Further technical assistance can be provided in a second phase of activities to implement the reforms and build process reform capacity within the agencies. The overall goal is to make the agencies more efficient, flexible, and responsive to investors.

*Small Business Approach*

The Small Business Roadmap differs from the standard Investor Roadmap in three ways. First, the diagnostic analysis will identify all laws, regulations and formal policies that openly discriminate or allow for more subtle and discretionary discrimination against small entrepreneurs and SMMEs. Second, the analysis assumes that small entrepreneurs are generally local rather than foreign investors. As a result, some standard Roadmap processes, such as foreign investor entry and the hiring of expatriate labor, are not directly relevant to SMMEs and are therefore excluded. Third, certain administrative requirements, such as some processing fees and delays, which are mere annoyances for large investors, can pose insurmountable obstacles for small entrepreneurs. This awareness will be reflected in the analysis.

The Small Business Roadmap activities will be conducted in the following manner:

- Phase I: Delineating the Roadmap. A detailed Roadmap diagnostic analysis will be prepared, identifying all the steps, costs, and procedures for establishing and operating SMMEs. The diagnostic will identify regulatory and administrative bottlenecks and propose specific reforms. A series of workshops will be then conducted -- with both public and private sector participation -- to discuss methods of improving government procedures and service delivery. The workshops will result in an “Action Plan” for facilitating an enabling environment for small business by reforming two or three priority processes.
- Phase II: Changing the Roadmap. A long-term resident advisor will work directly with a specially created Small Business Reform Task Force to implement the Action Plan developed during Phase I.

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## Phase I: Delineating the Roadmap

The goals of Phase I are to identify regulatory and administrative barriers to SMME development and to develop together with the relevant government agencies an Action Plan for ameliorating these barriers. This will be achieved as follows.

### *Diagnostic Report*

**Roadmap Assessment.** The consultants will implement the Investor Roadmap methodology, addressing in a step-by-step manner all the individual process steps needed to create and operate a legal business entity. The analysis will focus on processes relevant to SMMEs. By disassembling the process into separate components, it will be possible to identify precisely which procedural requirements currently pose the most critical bottlenecks to small entrepreneurs.

**Data Collection.** The consultants will determine the time delay required for each approval process, including minimum, maximum and median processing times. The cost of each form, permit, and approval will be calculated to provide an aggregate figure for the cost of becoming legally established; this aspect is particularly important for SMMEs with limited financial resources. The other procedural requirements will be detailed for each process, including sequencing requirements that certain processes precede others (e.g., business registration required prior to tax registration). Flow charts and diagrams of the process will be created; typically, these serve as an excellent demonstration of the labyrinthine nature of the investment process.

**Process Analysis.** The consultants will collect and analyze laws and regulations to identify instances of discrimination against small entrepreneurs and investment barriers in the formal legal framework. The consultants will also collect and evaluate all the required applications and forms; this will ultimately permit the elimination of redundancy and the simplification of applications. Additionally, the consultants will travel outside the capital to compare business start-up costs and delays; in some countries, setting up a business outside the capital is significantly more difficult.

**Comparative Benchmarking.** As a way to assist agencies in establishing benchmarks, local policies and performance standards

will be compared with those in other countries to the greatest extent possible. These will be defined as appropriate in terms of time delays, cost, and quality of services. Performance benchmarking is one of the most effective mechanisms for continuous organizational improvement.

**Validate Results.** The initial conclusions of the diagnostic will be presented in a conference for government officials and private sector representatives, including SMME owners, who will have an opportunity to comment on and validate the results. Furthermore, the validation conference will be an important opportunity to build constituencies for reform.

### *Catalyzing Reform*

**Convene Workshops.** A series of workshops will be held with relevant government agencies and private sector representatives, including SMME owners, to address areas of mutual concern and propose actions to stimulate reform. Emphasis will be placed on stimulating government agencies to re-examine their roles in order to eliminate unnecessary activities and improve service levels. Participants will be given relevant sections of the diagnostic report prior to the workshops to begin formulating potential alternative approaches.

**Create “Buy In.”** The workshops will be segmented by activity to ensure that the scope of discussion remains focused on the topic area and will be designed to be interactive in their approach. As such, case studies of actual or theoretical issues will be prepared to facilitate discussion. Detailed participatory process-mapping exercises will raise the collective awareness and understanding of the complexities faced by small businesses, moving all the participants closer to transparency, shared responsibility and improved communication.

**Identify Solutions.** The workshops will be structured to encourage problem solving among participants. In this manner, participants will have first-hand experience of how process re-engineering techniques can be most effectively applied to their own agencies. The participants will be encouraged to identify solutions to simplify investment processes, reduce the number of steps and clarify ambiguous or contradictory regulations.

**Prepare Action Plan.** The workshops will culminate in the preparation of an “Action Plan” identifying the most critical processes to be targeted for reform and the specific corrective steps

that will reduce impediments to SMME formation and operation. The Action Plan will include such issues as:

- (1) Identifying the two or three most critical processes and government agencies to be targeted for reform;
- (2) Establishing measurable goals for each process, allowing the counterparts to document the achieved successes;
- (3) Designing measurement systems that can be used to assess progress;
- (4) Planning an ongoing dialogue between government agencies and the private sector on reforms, in some cases including a public relations or press program.

**Final Report.** The consultants will prepare a final briefing report summarizing the proceedings of the workshops, discussing “lessons learned” and presenting a strategy for implementing the Action Plan. This document will allow common themes, concerns, and conclusions to emerge.

## **Outputs**

At the end of the first phase of activities, the following three outputs will have been generated:

- A complete Small Business Roadmap diagnostic report will be submitted to the government. The report will allow government officials, business associations and individual investors to understand clearly the regulatory and administrative impediments to SMME development. In addition to process descriptions and analysis, the report will indicate international benchmarking standards and provide specific recommendations for reforms.
- A series of workshops will be held to leverage the diagnostic report into a government and private sector approved Action Plan for priority reforms. This will provide the foundation for basic changes in the way targeted government agencies operate. These changes are expected to include simplification of forms, reduction in the number of procedural steps, and rationalization of regulations impacting SMMEs.
- A Final Report will summarize the proceedings of the workshops, discuss “lessons learned” and present a strategy for implementing the Action Plan.

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## **Phase II: Changing The Roadmap**

During the second phase, a change management specialist will be assigned as a long-term resident advisor to the government. The resident advisor will provide technical assistance to implement the Action Plan that was developed during Phase I and develop reforms for other processes as indicated in the diagnostic report. This will be achieved in the following manner.

**Establish Task Force.** The resident adviser will work with the agencies targeted in the Action Plan and with one or more small business associations to create a “Small Business Reform Task Force.” This group will be responsible for monitoring implementation of the Action Plan at each targeted agency. It will exercise essential “ownership” of the process reform initiative.

**Aid Targeted Agencies.** The resident advisor will help each targeted agency to design and implement the programs necessary to accomplish the reforms stated in the Action Plan. In this capacity, the advisor will help the targeted institutions refine their mission statements, client needs assessment, service provision and incentive structures. Anticipated results will include a fundamental restructuring of the targeted agencies into service-oriented, results-driven organizations.

**Additional Process Reforms.** The resident advisor will work with the Small Business Task Force to organize a series of national workshops to address other processes identified in the Roadmap diagnostic report. These workshops will utilize standard Roadmap process mapping techniques to develop further action plans for new procedural reforms. Additional specialist consultants can be brought in to work closely with national government agencies to draft new legislation and regulations as necessary.

**Performance Measurement Systems.** The resident advisor will work with the Small Business Task Force to develop systems that encourage continuing improvements to the performance and delivery of high quality services by government agencies. Generally, these systems will include performance measurement schemes and recognition-based incentive programs.

**Additional Tools.** In addition, several other tools may be used to continue the process of identifying and eliminating regulatory and administrative bottlenecks through ongoing process improvement activities, including:

- instituting the use of small business surveys, focus groups, and hidden inspectors.
- providing customer service training to both managers and front-line employees.
- empowering front-line employees through the training of generalists and creation of Super Counters.
- recommending ways of motivating employees through both monetary and non-monetary forms of recognition.
- increasing accountability through simple tools such as the use of name tags, suggestion boxes, and the press.

**Capacity Building.** Particular attention will be paid throughout the project to make sure that efforts to continue the impetus for reform will be ongoing. Accordingly, the resident advisor will build the Task Force's capacity in the areas of strategy and goal setting, measurement system design and change management. The resident advisor and the Task Force will collaborate with agency heads to establish strategies and goals, and work with mid-level management to determine process improvement plans.

## **Outputs**

The primary output of the second phase is implementation of reform. The result will be the fundamental restructuring of specific agencies into service-oriented, results-driven organizations. Phase II activities will create a self-generating system of process improvement within targeted agencies, with change management teams created in each agency. The work program will focus on designing and implementing a program of administrative reform that will allow government organizations to better respond to small business needs. This will include the establishment of feedback mechanisms to further increase accountability and deal with complaints, and performance monitoring systems to enable public sector officials and small business owners to measure and compare performance.

The long-term advisor will report on the progress of the project on a quarterly basis, culminating in an end-of-project report detailing the reforms implemented and their impact on the bureaucracy using the measurement system developed. Present capabilities and



established goals will be compared with those of other countries and international best practices.

The final important output is institutionalization of the reform process. Upon completion of the project, a formalized Small Business Task Force will be capable of managing process improvement exercises and applying the techniques to other investment processes. This consultative group and relevant government agencies will be able to assume roles as “change agents,” ensuring that procedural improvement is ongoing.

**SMALL BUSINESS ROADMAP**  
**LEVEL OF EFFORT BREAKDOWN**

**Phase I**

Small Business Diagnostic, Workshops and Final Report

Total Phase I Field Time:..... 140 Person Days

Total Phase I Office Time:..... 120 Person Days

**Phase II**

Because Phase II activities will be driven by the results of Phase I, the required level of effort for Phase II cannot be determined at this time. Phase II is therefore not included in the total level of effort and completion schedule, as shown below.

**Total (Phase I)**

**Field: .....140 Person Days**

**Office: .....120 Person Days**

**Overall: .....260 Person Days**